



**BOARD OF TRUSTEES FOR THE
MARYLAND TEACHERS & STATE EMPLOYEES
SUPPLEMENTAL RETIREMENT PLANS
MINUTES OF THE June 4, 2018 MEETING**

*Maryland
Teachers & State Employees
Supplemental Retirement Plans*

The Board of Trustees of the Maryland Teachers & State Employees Supplemental Retirement Plans convened at 9:48 a.m. on June 4, 2018, in Baltimore. A quorum was present.

BOARD OF TRUSTEES

T. Eloise Foster
Chairperson

Thomas M. Brandt, Jr.
Lynne M. Durbin, Esq.
Nancy K. Kopp
John D. Lewis
Johnathan R. West

Members Present

Ms. T. Eloise Foster
Mr. Thomas Brandt, Jr.
Ms. Lynne Durbin
Treasurer Nancy Kopp
Mr. John Lewis
Mr. Johnathan West

Michael T. Halpin, CRC®, CRA®
Secretary/ Executive Director

Debra L. Roberts, MBA, CPA, CRC®
Director of Finance

Richard A. Arthur, MBA, CPM
Director of Operations & Technology

Louis A. Holcomb, Jr., MA, CRC®
Director of Participant Services

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*Call About the Plans
or to Enroll
1-800-545-4730
or Enroll on-line at
www.MarylandDC.com*

Representatives and Guests

Mr. Michael Halpin, Staff
Ms. Lara L. Hjortsberg, Board Counsel
Mr. Richard Arthur, Staff
Ms. Debra Roberts, Staff
Mr. Louis Holcomb, Staff
Ms. Anna Marie Smith, Staff
Mr. Daniel Wrzesien, Nationwide
Ms. Amy Lillis Konopacki, Nationwide
Mr. Jeffrey Francis, Nationwide
Ms. Taylor Benson, Galliard Capital Management
Ms. Vanessa Vargas, Segal Marco Advisors
Ms. Kimberly Young, T. Rowe Price
Ms. Jennifer Falcone, T. Rowe Price
Mr. Christopher Lehman, SB & Company
Mr. Graylin Smith, SB & Company (via phone)

I. Chairperson's Remarks

Upon motion duly made and seconded, the minutes of the Open Session of the Regular Meeting of the Board of Trustees (the "Board") held on March 12, 2018 (Exhibit A) were unanimously approved.

II. Employee Service Awards

Chairperson Foster noted that the Governor had designated May 7, 2018 as State Employees Appreciation and Recognition Day. Ms. Foster gave recognition to the following employees:

Sharlene Matthews – 5 years of State Service at MSRP
Lara Hjortsberg – 5 years as Board counsel to MSRP
Debra Roberts – 10 years with MSRP
Anna Marie Smith – 20 years with MSRP

Board members joined Ms. Foster in expressing thanks and appreciation for their dedicated service.

III. Administrator's Report & Marketing Plan Update

Mr. Dan Wrzesien first introduced Ms. Amy Konopacki, a Nationwide Personal Retirement Consultant who covers the eastern half of Baltimore County and Baltimore City. Mr. Wrzesien then reviewed Exhibit B-1 regarding the improved rollover process for incoming funds with the Board. He noted that the underlying reasons for the report were issues related to a human keying error and historical procedures at Nationwide, which applied incoming rollover funds to incorrect participant accounts (2 times out of a total of 966 transactions) or applied such funds to incorrect investment allocations (6 times out of the same 966 transactions). It was noted that in the first instance the participant was able to take a loan on her account that she would not have otherwise been eligible to take because of the misapplication of funds. Mr. Wrzesien explained Nationwide's improved procedure, as well as the improved quality control process, including a Rollover Quality Control Checklist (Exhibit B-2), which was distributed with the Board packages for the meeting. He noted that with respect to the affected participants, each participant had been made whole and in instances where such participants received more funds than they would otherwise have been entitled to, such participants were not being required to reimburse Nationwide for the overages caused by Nationwide's misapplication of funds to their accounts. Mr. Wrzesien also explained that he had personally reached out to each of the affected participants to explain the situation and corrective actions.

Mr. Wrzesien then proceeded to the Administrator's Report (Exhibit B), beginning with the following highlights from the Executive Summary:

- Current Assets: \$3.9 billion
- Total Participants: 67,532
- Enrollments: 1,001
- Deferrals: \$50 million

- Mutual Fund Savings: \$555,755
- Rollovers-In: 167/\$5.7 million
- Distributions: \$39.4 million
- Rollovers-Out: 460/\$29.2 million
- Loans: 612 active/\$6.1 million
- Hardship/UE: 446

Mr. Wrzesien next highlighted the following achievements and initiatives for the first quarter of 2018:

- Nationwide Fixed Account educational communication mailed to all MSRP participants invested in that investment option mailed May 1, 2018. As of June 1, 2018, Nationwide's customer service number listed in the piece had received 10 customer service related questions regarding the mailing but no complaints had been lodged.
- The process for calculating eligible amounts for 401(k) and 403(b) hardship requests had been automated.
- Online enrollment process enhancements are continuing.
- Nationwide continues to work with SB & Company to complete the annual audit of the Plans.

Mr. Wrzesien returned to certain key points in the Administrator's Report from the Executive Summary. He noted that, as compared with the prior year first quarter contributions/deferrals had increased while rollovers-in had decreased. He reported a participation rate of 77.63%, with 43.87% of participants actively deferring, noting that both of these percentages were trending upward. Mr. Wrzesien noted that the asset allocation of the Plans in the first quarter of 2018 showed a decrease of 2.4% in cash and fixed income, as compared to the first quarter of 2017 and an increase of 0.9% in the Target Date Funds (TDFs). Mr. Wrzesien noted mutual fund reimbursements (MFRs) of \$555,755 for the first quarter of 2018, as compared to \$530,424 and \$525,675 for the first quarters of 2017 and 2016, respectively. He also noted that the Delaware Value Fund would be paying MFRs, including retroactively, and that the MFRs for the Delaware Value Fund would be added to the report going forward.

In reviewing account activity, Mr. Wrzesien noted that there were 67,532 participant accounts at the end of the first quarter of 2018, as compared to 66,519 at the end of the first quarter of 2017, representing an increase of 1.53%. For the comparison of distributions and contributions, Mr. Wrzesien noted a net increase of \$4.8 million for the first quarter of 2018, as compared to a net decrease of \$18.3 million for the first quarter of 2017.

Mr. Wrzesien then proceeded to the service updates, noting that there were 42 more new enrollments in the first quarter of 2018 (1,001) than in the first quarter of 2017 (959); there were 489 more increases in the first quarter of 2018 (2,974) as compared to the first quarter of 2017 (1,941); decrease activity increased from 758 in the first quarter of 2017 to 776 in the first quarter of 2018; and suspension activity increased from 69 in the first quarter of 2017 to 239 in the first quarter of 2018. Mr. Wrzesien noted that suspension activity had also increased in 2015, as did hardships and unforeseeable emergencies, and that he would provide an elongated view of this metric for analysis.

Mr. Wrzesien introduced the Board to the new ProAccount Activity report (page 46). He noted that 2,470 participants had enrolled in the ProAccount program since its launch in February 2017, with such accounts representing \$121 million in assets in the Plans.

Mr. Wrzesien stated that in the first quarter of 2018 Nationwide had a Minority Business Enterprise participation rate of 12% on the 15% goal. He noted that as a result of the SAVING\$ Expo in the second quarter, he expected that spend to increase.

Mr. Halpin supplemented Mr. Wrzesien's report with information from the Plans' quarterly financial statements, noting that there were 4,948 participants in the after-tax Roth option, representing \$39.4 million and that approximately \$2.3 million is contributed using the Roth option each quarter. He also noted that approximately \$1 million of Roth money is withdrawn each quarter. It was noted that similar information regarding Roth participation would be added to future Administrator's Reports.

IV. Comprehensive Annual Financial Report

Mr. Christopher Lehman of SB & Company led the discussion of the presentation of the audit report (*Presentation to those Charged with Governance*). He reviewed the scope of services with the Board. Mr. Lehman noted that the auditors intended to issue an unmodified opinion with respect to the financial statements. He explained that the auditors did not discover any material weaknesses in internal controls or instances of fraud, and he confirmed that SB & Company had received the full cooperation of management and Nationwide during the audit. He noted no significant findings with respect to the agreed upon procedures. He further noted that the audit was in process for testing (e.g., enrollment, fees, rebates) but that he had no significant issues to report thus far.

Mr. Lehman then presented the remainder of the audit report, including the *Comprehensive Annual Financial Report (CAFR) for the Calendar Year Ended December 31, 2018 (Exhibit G)*. Mr. Lehman described the risk-based audit approach; assessment of control environment; and summary of key accounts and audit results. He then reviewed the audit results with the Board, noting a change in net position of +\$432.8K. Mr. Lehman closed his report with the required communications to the Board on pages 13-16 of the SB & Company presentation, noting that he did not have anything of a negative nature to bring to the Board's attention.

Mr. Brandt noted that he had had the opportunity to meet with the auditors and that he had no additional comments to provide and that no exceptional conditions had come to his attention during the audit process.

Upon motion duly made and seconded, it was unanimously **RESOLVED** that, (a) the CAFR as presented at the meeting be approved and (b) the submission of the CAFR to the GFOA for the Certificate of Excellence in Financial Reporting Award also be approved.

V. Investment Advisors' Reports:

A. Segal Marco Advisors ("Segal")

Ms. Vanessa Vargas stated that a detailed first quarter performance report had been provided during the Investment Committee meeting immediately preceding the Board meeting. She noted in summary that all managers did well during the first quarter considering the volatility in the market and that all managers in April and for the year-to-date period performed above median and outperformed their respective benchmarks.

Ms. Vargas also reported that during the Investment Committee meeting the Committee had considered a recommendation from Segal to place TCW Core Fixed Income on the Watch List in light its 3- and 5- year underperformance.

After discussion, and upon motion duly made and seconded, it was unanimously **RESOLVED** that TCW Core Fixed Income be placed on the Watch List.

Ms. Vargas next reviewed with the Board Exhibit C-2 (*Socially Responsible Language in the Investment Policy Statement*), noting that most Segal clients have been discussing the topic but have not necessarily implemented language in their investment policy statements. She noted that two clients have implemented language, and she presented the language that had been adopted by these clients in a generic format (included in Exhibit C-2). She noted that Segal recommended that the Board revisit the discussion of the addition of ESG language during the Board's regularly scheduled IPS review in January. With respect to Parnassus specifically she noted that Segal had reviewed with the Investment Committee six other ESG funds to give the Committee an idea of what other options were available but that none of these other ESG funds had consistently performed better than Parnassus and that Parnassus had the lowest standard deviation and better downside capture than the other funds presented. She noted that, therefore, Segal was recommending that Parnassus remain on the Watch List, on which it had been placed the previous meeting, and that its performance be reviewed quarterly before making a decision to take further action with respect to that fund.

B. Galliard Capital Management ("Galliard")

Ms. Taylor Benson presented the first quarter performance report (Exhibit D), highlighting the following:

- Overall quarterly performance: 0.48% (net of fees), as compared to 0.57% for the benchmark (-9 bps as compared to benchmark)
- Assets under management (AUM): \$748.4 million
- Contract issuers: 5 (20% each)
- Duration: 3.03 years
- Market-to-book ratio: 98.38 (-80 bps) (natural decline given interest rates)
- Crediting rate: 1.98% (2.05% for 6/1/18)
- Credit quality: 70% of portfolio is AAA rated (average portfolio is AA-(BV), AA (MV))

Ms. Benson noted that effective April 1st, TransAmerica had reduced its fee from 20 bps to 18 bps and that effective June 1, Metropolitan Life had reduced its fee from 21 bps to 19 bps. She noted that as a result, all contract issues (except MassMutual, discussed below with respect to Barings) had wrap fees below 20 bps. She noted that Galliard has negotiated consistent investment guidelines with all wrap providers and will now go back to push them further with respect to fees.

Ms. Benson then reviewed the underlying manager performance in the ICP for the quarter, noting the following for the period ended March 31, 2018:

- Galliard – -0.03% below benchmark
- JP Morgan – +0.12% above benchmark
- Earnest Partners – - 0.08% below benchmark
- Barings (*f/k/a Babson*) – +0.18% above benchmark
- TCW – + 0.25% above benchmark (noting that longer-term performance is PIMCO)

Ms. Benson noted that after review the external management team at Galliard believes there is a better, higher conviction, lower-risk alternative to Barings, and expects to replace Barings with Dodge & Cox. She noted that Galliard is working through the contract terms with Dodge & Cox and expects the transition to occur later this year. She noted that MassMutual is an affiliate of Barings and therefore, expects that if MassMutual does not reduce its wrap fee as other providers have, Galliard is likely to replace MassMutual with another wrap provider.

VI. Staff Reports

A. Finance

Ms. Debra Roberts presented the agency budget and expenditure report (Exhibit E) as of April 30, 2018. She noted that this report was being presented in its new format, which had been first introduced at the last meeting, and that the Board members are encouraged to provide feedback as to their preferences regarding presentation.

Ms. Roberts reported revenues of \$1,330,307, with expenditures \$1,660,414 resulting a deficit of (\$330,107). She explained that the deficit decreased the reserve balance to \$465,433. Ms. Roberts noted that the ending reserve balance as of June 30, 2018 is estimated to be \$365,864.

B. Field Services

Mr. Holcomb presented the field staff report (Exhibit F). He provided an overview of the 2018 “*MSRP SAVING\$ Expo*” held on May 16th at the O’Conor State Office Building on Preston Street. He noted that the theme for Expo was “*Destination Maryland*”. Mr. Holcomb reported that the SAVING\$ Expo attracted over 571 attendees, compared with last year’s attendance of 466.

VII. Board Secretary's Report

Mr. Michael Halpin stated that he did not have a formal, written report but noted that he would like to discuss an app that Nationwide had developed in conjunction with the 2017 Saving\$ Expo. He noted that this year Apple had not allowed Nationwide to use the specially-designed MSRP Expo app and that MSRP would like to take over ownership and licensing of the app. He explained that the app allowed communications to participations via their smart phones and devices such as "push" notifications on the occurrence of certain events (e.g., salary increases, tax refunds, etc.). It was the consensus of the Board to allow MSRP management, with the advice of counsel, to pursue this opportunity.

VIII. Board Counsel's Report

Ms. Lara Hjortsberg noted that she would provide her report during the closed session noted as the next agenda item.

IX. Executive Session

Chairperson Foster noted the Executive Session on the agenda. At the Chairperson's request, Ms. Hjortsberg explained that the reasons for closing the meeting was in accordance with (a) General Provisions Article ("GP") §3-305(b)(7), to consult with counsel to obtain legal advice on a legal matter (potential litigation); (b) GP §3-305(b)(8) to consult with staff, consultants or other individuals about potential litigation; (c) GP §3-305(b)(13), to comply with a specific constitutional, statutory, or judicially imposed requirement that prevents public disclosures about a particular proceeding or matter, specifically pursuant to, GP §4-312(a) with respect to the retirement records of an individual, and (d) GP §3-103(a)(1)(i), to perform an administrative function, specifically to review the minutes of the closed session of the Board meeting held on January 22, 2018. Ms. Hjortsberg noted that Chairperson Foster had signed the *Presiding Officer's Written Statement for Closing a Meeting* ("Statement to Close") with respect to §§3-305(b)(7), (8) and (13) to this effect.

Upon motion made and seconded, it was unanimously

RESOLVED, that the Board of Trustees of the Maryland Supplemental Retirement Plans move into a closed session in accordance with §§ 3-305(b)(8), 3-305(b)(7), and 3-305(b)(13) to (a) consult with staff, consultants or other individuals about potential litigation, (b) obtain the advice of counsel with respect to such potential litigation; (c) to comply with a specific constitutional, statutory, or judicially imposed requirement that prevents public disclosures about a particular proceeding or matter, pursuant to GP §3-305(b)(13), specifically, GP §4-312(a), with respect to the retirement records of an individual; and (d) GP §3-103(a)(1)(i), to perform an administrative function, specifically to review the minutes of the closed session of the Board meeting held on March 12, 2018

The Board members and the following persons remained present for the Executive Session: Mr. Halpin, Ms. Roberts, and Ms. Hjortsberg.

The Executive Session concluded and the regular session resumed at 11:17 a.m. At the Chairperson's request, Ms. Hjortsberg announced the following actions by the Board during the Executive Session:

- Approval of Minutes of the closed session of the Board meeting held on March 12, 2018; and
- Receipt of an update from counsel and staff regarding potential litigation (*information only*)

X. New Business

Treasurer Kopp posed the question as to how frequently T. Rowe Price reviewed the TDF allocations in light of an article she had recently read regarding CalPERS' use of TDFs. It was noted that the fixed income changes in the TDFs had been presented to the Investment Committee and the Board in the last year and that T. Rowe Price continually reviews the allocations in the TDFs. Ms. Vargas and the representatives from T. Rowe Price in attendance noted that they would review the article to which the Treasurer was referring and report back to the Board.

XI. Adjournment

A motion to adjourn was entered at 11:21 a.m., seconded, and carried unanimously.